# THE ORPHANED BUDGET - 1958

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CHAPTER I

## INTRODUCTION

The Federal budget for fiscal year 1958 has a strong claim to the distinction of being one of the most fluctuating of recent times. A Federal budget tends to follow, in both preparation and execution, a fairly predictable pattern: it is prepared by the executive, after nearly a year of effort; it is submitted for approval and modification to Congress, where normally a billion or two is subtracted from the totals proposed by the Executive (at a somewhat later time some amount of this subtraction is restored by Congress); and then the budget plan is carried out, with modifications dictated by changing circumstances.

The 1958 budget, however, has been characterized from the very beginning by unusually severe changes in direction. It is quite probable that these convulsions will be found to have been among the major causes for the recession of 1957-1958.

In the nearly two years during which the 1958 budget was conceived and partially carried out, it has been subjected to all the enormous pressures that are always present. In addition, it was affected by certain massive changes in the mood of the American public, and in the execution phase was drastically modified to meet the demands of changing defense and economic needs.

The 1958 budget has been the recipient of terms of opprobium and even of despair. A Wall Street Journal columnist referred to it as the "runaway budget",[1] emphasizing the idea that it appeared to be no longer under the control of either the Executive or the Legislature. During the heated

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[1]Albert Clark, "Runaway Budget," The Wall Street Journal, October 2, 1957, p. 1.

hearings held prior to the passage of the Appropriation Act of 1958, the budget was referred to by Mr. Cannon, chairman of the Committee on Appropriations of the House of Representatives, as a repudiated budget.[2]

Any Federal budget is complex, as can readily be seen by a brief look at the various stages through which it passes, and the variety of powerful persons and agencies who have a right and a duty to influence it. Any Federal program shown in the budget can have its components traced through a budgetary cycle consisting of these stages:

Planning (preparation)

Appropriation

Apportionment

Commitment

Obligation

Expenditure

In addition to these clear stages there are other activities which also influence programs. Illustrative are the post-expenditure activities that serve to modify the net outflow of Federal funds: the renegotiation of defense contracts, the auditing of contractors' accounts by the Government Accounting Office and other agencies, and the direct or indirect influence of various kinds of investigating bodies as they look into situations appearing to call for it. All these activities produce a return of funds to the Treasury.

This paper will point out the "sufferings" of the 1958 budget in its advance through the various stages of the budgetary cycle. The

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[2]U.S. Congress, House, Subcommittee of the Committee on Appropriations, Hearings on the 1958 Budget, 85th Cong., 1st Sess., July 12, 1957, p. 7.

planning stage produced a proposed budget which appeared to lack the enthusiastic backing of the President. The appropriation stage suffered from wavering support of the budget by the executive branch and particularly because of certain executive actions which will be brought out later. The apportionment stage was used with greater severity than ever before to attempt to keep expenditures to certain levels instead of for its more normal use of insuring that programs were justified and up-to-date before the release of funds. The commitment and obligation stages were brought nearly to a standstill by expenditure ceilings and apportionment actions. The expenditure stage became of central importance as the executive branch attempted to avoid the exceeding of the national debt ceiling on the one hand and the calling back into session of Congress to raise the ceiling on the other.

A number of the features of the Federal budgetary process were clearly evident during the sparring, maneuvering, changes of course, innovations in procedure --- characteristics of all budgets and of the 1958 budget in particular.

Clearly seen, for example, is the historic feeling of the legislature, whether correct or incorrect, that once the funds have been appropriated, it is frequently shouldered aside by the Executive in monetary matters. In the past, Congress has made a considerable effort to devise means to counter what it considered to be the circumvention of its desires. This preoccupation on the part of Congress sporadically continues, since it can still be said today, as said by Professor Lucius Wilmerding in 1943, that ". . . Congress has not yet succeeded in devising a system of procedure stringent enough to

render efficacious its unquestioned right to control the public expenditure."[3]

The legislative branch has also had the tendency to get into details on budgetary matters. This tendency has been evidenced even while the realization prevails that demands on Congressional time are too great to permit anything more than the making of general policy. These conflicting pressures have heightened the normal budgetary conflicts with the executive.

Our political setup apparently will not permit the arriving at a completely objective program or group of programs which can be carried out for the public good. Budgetary decisions, affecting both formulation and execution, are of necessity influenced by major events of national and international life. Near-term events of great political or economic import frequently cast unnaturally large shadows on the budgets. The proximity of elections, the state of the economy, changes in our defense requirements, the unceasing political skirmishing for achievement of favorable political positions among politicians, Congressional jealousy of assumed or actual prerogatives, "salesmanship" of those who explain and defend programs before Congress[4] --- all these factors and many others make extraordinarily difficult the arriving at a national program supportable by both the Executive and the Congress.

No small part of the difficulty with the 1958 budget, as has been true to some degree or other with previous budgets of recent times, has been the lack of understanding that exists concerning figures and what they

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[3]Lucius Wilmerding, Jr., The Spending Power. New Haven: Yale University Press, 1943, p. 308.

[4]Elias Huzar, The Purse and the Sword, Ithaca, New York: Cornell University Press, 1950, p. 103.

purport to mean. To start with, the figures involved are of such astronomical size as to be generally incomprehensible. In addition to the incomprehensibility there is confusion over the very terms used to describe various aspects of the federal budget. It is not unusual, for example, to find confusion between expenditure budgets and new obligational authority budgets. Knowledgeable people have been known to make comments implying everything from incompetence to mutiny when the expenditures for a year exceed the new obligational authority authorized. There is also the tendency to grasp "round" and easily remembered figures and adhere to them even when situations change. Dr. Gabriel Hauge referred to the "breaking of the $70 billion 'fiscal sound barrier'"[5] as being one of the shocks associated with the 1958 budget. This attitude fails to acknowledge changing needs of the country, increasing price levels, increasing complexity of military equipment, changes in the threat to national security, among other factors.

This paper will view the "Orphaned Budget --- 1958", pointing out the significant events, trends, and policies that made this budget unique.

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[5]Charles J. V. Murphy, "The Budget---and Eisenhower", Fortune, July 1957, p. 96.

## CHAPTER II

## DEVELOPMENT OF THE 1958 BUDGET

### General

There are many interrelationships between Congress and the Executive as concerns budget preparation. Some of these interrelationships are statutory, some are of long-standing custom, and some are unofficial and occur because of the specific personalities involved at the time.

Personnel in the Executive branch begin work on the proposed budget many months before the Congress, and have these months in which to work over the details, arrive at agreed upon and approved positions, and prepare and "re-prepare" for the day of submission of the budget to Congress. Many official and unofficial conferences between persons in the Executive branch of the Federal Government precede decisions as to budgetary levels or goals. Departments and agencies give the Bureau of the Budget "flash" estimates which are then worked over, refined, and whittled down, eventually becoming guidelines of the President to the departments and agencies.

In the summer of 1956, when the first round of conferences concerning the fiscal 1958 budget was nearly over, the first or "flash" estimates indicated that new obligational authority of $48½ billion would be required for the Department of Defense. This apparently caused no great concern since these first estimates are traditionally high and are worked downwards in subsequent sessions. They were eventually to be worked down to equal new obligational authority of $38.5 billion and expenditures of $38 billion.

1958 was eventually to turn out to be different, however, in that it was in the nature of a crossroads: military expenditures, which had been worked laboriously downwards after Korea, were once again beginning

to climb significantly. A slow but continuing inflation kept prices moving upwards. Developments in technology made for ever more complicated and costly weapons systems and equipment.[6] For these and other reasons, expectations that surpluses would lead to decreased taxes and reduction of the national debt became little more than wishes and set the stage for the coming events.

## Political Climate

Decisions on the budget had to be made in the immediate presence of an election year. The President, the House of Representatives, and a third of the Senate faced elections and had to be more than usually aware of the implications of any budgetary pronouncement or action. In essence the problem was to strive for a balance between what was felt to be economically right and that which would provide "adequate" defense. These two goals were working at cross purposes to each other; in general the more economies that were made the less defense could be provided. Neither party could afford to be called profligate with the national wealth nor, on the other hand, could either party afford to be said to be "trifling with the national defense."

The President was riding at a height of popularity and with the continued great respect of the nation for his ability in military matters. The issues being resolved concerning the budget did not get out into the public political arena prior to the election, since very little information is divulged officially before the submission of the budget to Congress.

There are evidences of considerable activity within the Executive Department concerning actions to reduce the 1958 budget to more "digestible"

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[6] Ibid., p. 228.

size. Very little of this, as far as can be ascertained, made its way into the press in specific terms.

Beside the internal political climate there were international considerations involved.[7] Negotiations with Soviet Russia concerning disarmament were under way and it was considered desirable to operate from a position of strength, rather than from cutback military strength. Treaty relationships with 44 nations of the Free World were in existence requiring various amounts of assistance under different circumstances.

## Economic Climate

During the last half of calendar year 1956, when the work on the fiscal year 1958 budget was proceeding at full speed, the economy was booming to ever higher levels. The nation was confident, as indicated by the actions of consumers, producers, and the government.[8] Consumer debt was remaining near the highest levels in history. Inventories of goods of all kinds were at new high levels almost every month. Plant expansion continued at a pace never before seen.[9] The price level continued to rise, slowly but almost continuously. The government was being pushed along on the wave of confidence, and had been pushed into many fields in which its efforts had previously been much less, such as urban redevelopment, more and better

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[7]U.S. Congress, House. Committee on Appropriations. Hearings, Department of Defense Appropriations for 1958. 85th Cong., 1st Sess. Washington: Government Printing Office, 1957, p. 315.

[8]U.S. Congress, Senate. Committee on Finance. Investigation of the Financial Condition of the United States. 85th Cong., 1st Sess. Washington: Government Printing Office, p. 1108.

[9]Ibid., p. 548.

roads and highways, increased aid to schools, and expanded social benefits of many types.

In economic matters, then, the general mood was one of confidence concerning the future, willingness to gamble on the future and desire to increase the Federal Government's part in many of the activities in order to further increase security.

"Pruning" of Departmental Requests

Through the last six months of 1956 the Department of Defense worked the defense budget slowly down, painful billion by painful billion, from the "flash" estimate level to $38.5 billion of new obligational authority and $38 billion for expenditures. This level had finally to be approved by the President, since Secretary Wilson could not agree to the lower level of $36 billion wanted by the Director of the Budget.[10]

Seeds of Trouble

A number of indications of future serious trouble began to be ever more apparent. Some of the indications make very clear that budgetary matters are affected by and affect almost every activity of national life: economic, political, financial, military.

Four of the most serious "seeds" of future trouble were the following:

1. Adoption of strict expenditure ceilings. Control over expenditures in the past has largely been attempted and/or achieved through the control of obligations. Even the apportionment process in reality is aimed at

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[10]Murphy, loc. cit.

releasing money for obligation, rather than expenditure. The difficulty arises from the fact that once an obligation has been incurred the government has thereafter very little control over the timing of the subsequent and resultant expenditures. When a contractor meets the terms of his contract and presents his bill he must be paid within a very short time.

It became apparent in late 1956 that a much tighter control of expenditures was going to be required during the remainder of fiscal year 1957 than then existed. This was to be made absolutely necessary in early fiscal year 1958 by the close proximity of the national debt to the ceiling established by Congress.

2. Continuation of inflation. The continually rising costs made it impossible to plan for future costs with any degree of certainty. Nearly all programs cost more than planned when time to pay for them arrived. Increased labor and material costs on government contracts were of course reflected in the expenditures of the government.

3. Economic gluttony and subsequent early signs of indigestion. Increasing numbers of economists and other observers began to point out evidence of excessive inventories, excessive consumer buying on credit, and over-expansion of productive facilities. It seemed likely that sooner or later the economy would have to slow to digest a while.

4. Executive and legislative uneasiness with the size of the budget, but inability or unwillingness to do anything drastic about it. An increasing number of public figures spoke up about the necessity for slowing down and even backing off on the expansion of government into various social and economic areas of national life. They expressed concern not so much for the

expansion into these areas as they did for the ever-increasing cost of this expansion. The political realities made it almost impossible to back off from these programs, and thus from the expenses, since the people maintained political pressure on their legislative representatives to continue to provide them.

## CHAPTER III

## CONSIDERATION OF THE BUDGET BY CONGRESS

### Submission of Budget

Shortly after the convening of Congress in January 1957, the President's 1958 Budget was submitted to the Congress. This normal procedure was accompanied by unusual actions.

Most notable and publicized of the subsequent actions was a press conference held by Secretary of the Treasury Humphrey on January 16, 1957. He first issued a prepared statement and then submitted to questions. One of his remarks became unfortunately famous when it was taken to mean things the Secretary apparently had not intended. The specific remarks were as shown in the following quotation. The succeeding question is also shown since it presaged the storm to come.

Secretary Humphrey. "I think there is; yes. I do. I think there is some hope you can reduce expenditures all along the line. I would certainly deplore the day that we thought we couldn't ever reduce expenditures of this terrific amount, the terrific tax take we are taking out of this country. If we don't over a long period of time, I will predict that you will have a depression that will curl your hair, because we are just taking too much money out of this economy that we need to make the jobs that you have to have as time goes on."

Question. "Could we have the stenotypist read that back to us. That is a good quote."[11]

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[11] U.S. Congress, House. Subcommittee of the Committee on Appropriations, Hearings on the Budget for 1958, 85th Cong., 1st Sess., Washington: Government Printing Office, p. 14.

Secretary Humphrey later explained over and over again that what he had meant was that no budget is static, that the budget had no holes in it that he knew about at the time, but that he expected with the passage of time that Congress would be able to find some areas of savings, and that the Executive branch would likewise be alert for opportunities to make reductions.[12]

Reactions to Budget

Reactions to the proposed Federal budget were prompt and vigorous on all sides, seemingly triggered by Secretary Humphrey's press conference comments. Members of Congress vied with one another in shooting at the budget, stating how much it should and would be cut. Republicans and Democrats, leaders and followers, the press and citizens of all kinds began to be heard on the excessively large size of the budget, and talking about drastic action to cut it down.

Hearings on the budget began before the Committee on Appropriations of the House of Representatives within a few days.[13] The first witnesses called were the Secretary of the Treasury and the Director of the Budget. The first order of business was to put into the record a transcript of Secretary Humphrey's by then famous press conference remarks. The members of the committee then began to work on the Secretary with vigor attempting to unearth any political significance in his press conference remarks, and to get him to admit that there were soft spots in the budget and to point out

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[12] Ibid., pp. 17-20.

[13] Ibid.

one or more of them. Throughout the questioning could be detected Democratic suspicion of the political aspects of the action of tossing a budget to Congress and inviting it to cut. It is also clear that some of the representatives were feeling the historic feeling of impotence when faced with the budget. This feeling can be illustrated best by this comment from the hearings:

"Mr. Sheppard. I think your assumption is correct, although I am under the impression that we are behind the eight ball to a certain degree. Every witness who is sent up here by the executive branch to defend its appropriation certainly defends it to the nth degree and never gives us a break as to what might be saved."[14]

Throughout the hearings on the 1958 budget, all top level witnesses from the Executive were subjected to the same sort of questions as was Secretary Humphrey, as the legislators searched for "soft spots". Secretary Wilson, for example, in defending the budget of the Department of Defense was repeatedly invited to show areas in which money could be saved.[15]

In the last few months of fiscal year 1957 stringent controls on expenditures were imposed by the Bureau of the Budget on the departments and agencies of the executive branch. It had become apparent that expenditures would exceed the ceiling unless drastic measures were taken to slow them. Departments were given specific ceilings and directions not to exceed them. Since it was late in the budget year comparatively few actions remained to the departments other than to delay the making of obligations and to stall

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[14] Ibid., p. 43.

[15] U.S. Congress, House. Committee on Appropriations. Hearings, Department of Defense Appropriations for 1958. 85th Cong., 1st Sess., Washington: Government Printing Office.

some of the bills arriving late in June into the next fiscal year.

The Administration initially underrated the commotion that would arise because of the size of the budget. The President was slow in rallying his forces behind it and gave the impression of being unhappy with the budget.

Finally it became obvious that the program reflected in the budget stood little chance of being passed unless the President took some strong and forceful actions. He then appealed to the people and to Congress for support, especially emphasizing the international obligations of the United States and the necessity for supporting the defense program.

Part of this effort was negated, as far as relations with Congress was concerned, when word of a Bureau of the Budget instruction to departments and agencies became known to the Committee on Appropriations. The instruction directed departments and agencies to guide their 1958 programs by the 1957 levels, and stated that any increase over the 1957 levels would need to be specially justified to the Bureau of the Budget.[16] Congress interpreted this to be a political maneuver in which Congress would pass the larger 1958 budget, and the Executive would operate on the 1957 levels, and would thus gain political advantage from achievment of significant economies. The attitude of Congress is best shown by quoting from the hearings before a subcommittee of the Committee on Appropriations of the House of Representatives, on July 12, 1957, just before adjournment:

Mr. Cannon. "The letter repudiates the 1958 budget. The 1957 budget has not been transmitted to the House. So there are no firm estimates before

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[16]U.S. Congress, House. Subcommittee on Public Works Appropriations, Committee on Appropriations. Hearings on the 1958 Budget. 85th Cong., 1st Sess., Washington: Government Printing Office, 1957, p. 7.

the committee and nothing on which to predicate an appropriation. There seems to be nothing further we can do this morning. Without objection, the committee stands adjourned."[17]

It should be noted that this statement on the 1958 budget was made on July 12, 1957, twelve days after the beginning of the fiscal year for which funds were needed, and six months after hearings on this budget had begun.

Concurrent Developments Foreshadowing Trouble

Various political, economic, financial and military developments foreshadowed additional difficulties for the 1958 budget. Political figures sparred on the 1958 budget throughout the period to attempt to end up in the better political position. The boom had definitely levelled out, with indications to that effect in nearly all fields of endeavor. The stock market had levelled and tended lower. Basic metals had come into oversupply and prices continued their decline. Interest rates were high and being maintained there to serve as an anti-inflationary force. Over-production of goods and over-expansion of production facilities was becoming more apparent. Inventories were at high levels and becoming a source of concern. Automobile and steel production facilities were operating at less than capacity and trending down.

It was becoming more apparent that expenditures during the first half of fiscal year 1958 would come perilously close to the existing national debt ceiling.

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[17]Ibid., p. 14.

Of great significance to industry were the actions taken by government agencies, particularly in the Department of Defense, to attempt to restrain expenditures. The deferral of obligations had the effect of beginning to delay programs and of causing some layoffs of personnel. This was to become of much greater significance later, but began to be felt in this period.

## CHAPTER IV

## THE FIRST HALF YEAR UNDER THE 1958 BUDGET

There were many causes for the troubles which constantly enveloped the 1958 budget, both in the planning and execution stages. Many events transpired to make it necessary to deviate from existing plans.

In analyzing the various causes and attempting to determine their relationships to one another it becomes clear that in the area of budget execution, and particularly in the first half of fiscal year 1958, there was one factor to which nearly all others can be traced. The factor most responsible for setting in motion the subsequent actions relative to expenditure ceilings, deferral of expenses, postponement of new obligations, stretch-out of programs, and many others, was this:

THE MARGIN BETWEEN THE NATIONAL DEBT
AND THE DEBT CEILING WAS TOO NARROW.

The fact of a narrow operating margin between debt and ceiling permitted the President only two alternative choices:

FIRST: TO ASK CONGRESS TO RAISE THE DEBT CEILING.

SECOND: TO SLOW DOWN EXPENDITURES AND LIVE WITHIN THE EXISTING DEBT CEILING.

For various reasons the second alternative was chosen, and with the choosing a series of actions was triggered. The actions led to certain drastic results. Some of these actions will be pointed out to highlight the great import of the basic decision from which they stemmed.

Once the basic decision to live within the existing debt limit was made two actions were taken to put reins directly and indrectly on expenditures:

FIRST: STRICT EXPENDITURE CEILINGS WERE SET.

SECOND: THE APPORTIONMENT PROCESS WAS TIGHTENED UP.

The necessity for the use of strict expenditure ceilings is obvious, since the narrow operating margin would permit only the least possible expenditures. Obligations incurred in previous years had to be met when the "bills" were tendered. Certain expenditures of fiscal 1958 were unavoidable no matter what drastic actions were taken.

The tightening up of the apportionment process served two main purposes:

1. Insuring of closer scrutiny of all programs, to ascertain their continuing validity, on the basis of the latest information available.

2. The slowing down of obligations and expenditures, since money cannot be committed and obligated without first being apportioned. While submitted apportionment requests must be acted upon within specified time limits, it is possible to slow down the process by asking questions or modifications of the requesting agencies just prior to submission of apportionment requests. The requests are then delayed pending preparation of answers to the queries. This system is unofficial but is a very effective device for the slowing of budgetary processes.

Faced with these decisions and actions, the departments embarked on certain necessary actions of their own. The ceilings imposed were so restrictive as to make mandatory very drastic actions and a nearly complete departure from the normalcy so sought after in the execution of budget programs.

A preponderant part of the slowdown had to be absorbed in the programs

embraced by the 1958 budget. Funds appropriated in prior years were in large part already obligated. Expenditures resulting from these prior obligations were almost impossible to slow down, since they were largely out of the control of government agencies.

A listing of some of the principal types of actions that the departments and bureaus had to take will more clearly illustrate the drastic nature of the problem;

1. The postponement of the incurrance of new obligations.
2. The stretchout of programs.
3. The deferral of expenses.
4. The close, frequent, and regular monitoring of expense trends and totals.

In such a large, complex, and interrelated group of organizations as the Federal government, the actions taken above would very logically reverberate everywhere. The actions on the part of most government departments and agencies were added to the severe setbacks being suffered throughout segments of the economy, and the adverse effects were made more severe.

> "Then, in late 1957, just when new orders for capital goods were off sharply, and capital goods production was starting to drop, the government belatedly began putting its fiscal house in order--pressed by the necessity of staying under the debt limit. With revenues seasonally low in the second half of the year, this could only be done by holding down expenditures. And these were in a rising trend, based on outstanding orders for defense goods. The government adopted measures of unprecedented strictness to forbid new expenditures in various civilian fields, canceled or stretched out many defense contracts, and deferred payments on others.
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> Defense contractors, strapped for funds, were hard-pressed to get the loans they now needed, with the banking system still tightly restricted by Federal Reserve actions. They became so uncertain of government intentions that they began to cut their own programs,

unload inventory, reduce payrolls, cut plant and equipment spending."[18]

Effects on industry were adverse and widespread. In general terms the principal effects were in these areas:

1. Dislocation of plans.

2. Decrease of production.

3. Difficulty in financing operations.

4. Layoffs of personnel.

Two extracts from the annual report of Thompson Products, Inc., of Cleveland, Ohio, for 1957, best illustrate the situation prevailing throughout defense industries having considerable government business.

> "Early fall, however, brought a swift change in our outlook. Action taken by the Defense Department to solve its fiscal problems precipitated a sudden series of sharp cut-backs, stretch-outs and hold orders, as well as a considerable shut-off of new order placement.
>
> Overshadowing all other events affecting Thompson people was the heavy impact of a sudden reversal in aircraft schedules. Employment was reduced of necessity from a peak of 25,141 in April to 19,352 at the year's close. It should be noted, however, that more than 3500 of those affected had been added since mid-1956 in preparation for expanded aircraft schedules that had been represented as firm and certain."[19]

The effects on government departments and agencies were also adverse and nearly universal. Some of the principal effects were these:

1. Closing of some installations.

2. Deferral of some programs.

3. Deferral of some maintenance and repair.

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[18]"How the Slump Got That Way," Business Week, April 5, 1958, p. 28.

[19]Thompson Products, Inc., Annual Report -- 1957, pp. 4, 37.

4. Personnel cutbacks.

Two extracts from the testimony of Robert E. Gross, Chairman of the Board, Lockheed Aircraft Corporation, Burbank, California, before the Johnson Preparedness Subcommittee, give some further indication of the extent of the effects of the actions that were taken.

> "Although the growing Soviet strength has been known for some years, we have not geared our defense program to cope with today's realities. Although we face a national crisis as grave as any in our history short of actual war, we have been more concerned with balanced budgets, reduced taxes and business as usual than with security from atomic annihilation.
>
> It is rather ironical that in the same newspapers recording the Russian sputnik were reports of cutbacks, stretchouts and cancellations of contracts for weapons essential to our Armed Forces because of funding problems and payment limitations."[20]

Change in Mood of the Country

The confident mood that had prevailed for most of four years had changed by late 1957. The stock market reached its lowest point in several years. Unemployment was increasing steadily. New cars were not selling. "Business firms generally cut output to reduce inventories, slashed new orders for capital goods, reduced capital outlays."[21] Retailers of all sorts had begun to cut back on inventories to a level more appropriate to the general economic mood of the country.

And then Sputnik I -- and a Change of Direction

Soviet Russia successfully launched the first earth satellite on October 9, 1957 . News of the launching was received in the United States

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[20]U.S. Congress, Senate. Preparedness Investigating Subcommittee of the Committee on Armed Services. Hearings Investigating Defense Preparedness of the United States. 85th Cong., 1st Sess., Washington: Government Printing Office, 1957.

[21]Business Week, p. 27.

with a sense of shock, followed by much talk and the initiation of many actions.

The 1958 budget, in the painful process of being carried out under the conditions previously described, began slowly to feel the change in the mood of the country. There was a slight relaxation of financial reins; expenditure ceilings were raised slightly; apportionment requests went through with a little more rapidity; plans for supplemental and deficiency requests to be submitted to the next session of the 85th Congress began to be prepared with urgency; investigating bodies began to be formed; some additional scientific experts were recruited into government service; selected programs began to be accelerated -- notably guided missiles, earth satellites and atomic submarines; plans for a reduction in taxes during the forthcoming election year were discarded by both the Executive and the Legislature; the likelihood of an increase in the debt ceiling, expected to be necessary in the immediate future, became a certainty.

## CHAPTER V

## THE LAST HALF YEAR UNDER THE FISCAL YEAR 1958 BUDGET

The last half year of fiscal year 1958 was only a little more than half over as this paper was written. As a consequence it is not possible to be conclusive concerning the budget execution during the period. As far as the half year had proceeded, however, there were certain developments worth noting as probably being indicative of the trend for the entire period, and at least being among the features of the period.

A feature of the last half year was the lessening of the restrictive pressure of the national debt ceiling. Congress approved the request of the Executive for a temporary increase in the national debt ceiling. In addition, the first few months of the year, as is usual, produced revenue from taxes at a faster rate than the rate of government expenditure.

The Executive maintained tight control over expenditures through expenditure ceilings, the apportionment process, and the reevaluation of programs. There was apparently no use of the apportionment process to cause programs to be delayed, but program managers were required to keep tight check on their programs because of the ceilings on expenditures.

Probably the major feature of the period was the speedup in plans for increased government expenditure, designed to counteract the effects of the recession. Some defense orders to be placed in labor surplus areas were expedited. Defense spending was stepped up overall. A long-range shipbuilding program was instituted. Funds were released for construction loans for local public works. Additional funds were approved for reclamation projects; rivers, harbors, and flood control; housing; increased unemployment

compensation. Non-military purchasing was to be expedited. Most of this money would not begin to be felt for some time but it did indicate a definite effort and trend which differed from that noted in the previous period.

## CHAPTER VI

## SOME GENERAL OBSERVATIONS

The fiscal year 1958 budget can best be evaluated and analyzed from a vantage point much further in the future than that occupied by this paper. Even at this time, at the beginning of the fourth quarter of the fiscal year, two events have so clearly left their imprint on the budget programs that the events seem very likely to be considered of major significance even when viewed from the future. These two events need to be specially emphasized and remembered in the future:

1. The national debt ceiling was too low during the first half of the year and served to distort programs. Adherence to the restrictive ceiling became a primary objective, was apparently allowed to supersede all other considerations, and was directly responsible for drastic program changes.

2. The imposition of strict expenditure ceilings resulted from the restrictive proximity of the national debt to the national debt ceiling. It cannot be considered to have been truly effective in restricting expenditures since most departments, even after drastic steps, had to request increases in the ceilings in order to avoid violations thereof. In addition the ceilings became objectives superseding in importance the programs to which they pertained, which although desirable from the standpoint of funding was unduly restrictive to the programs.

It seems clear from the experience to date with the fiscal year 1958 budget that the national debt ceiling should not again be permitted to govern the programs for which funds have been appropriated by the Congress.

If programs need to be modified or killed procedures for so doing exist and should be used. The starvation of a program to meet the completely unrelated requirement of living within a debt ceiling is at least unbusiness-like.

The fiscal year 1958 experience with expenditure ceilings was likewise an unhappy one. Since, of all the budget stages, expenditures are the least subject to influence by agencies of the Federal Government, expenditure ceilings require drastic actions in other stages, and particularly in the obligation stage. The government has least control once funds have been obligated and can thus avoid spending only by not obligating. Exceptions to this may save some money but are to some degree wasteful.

## Summary

This look at the fiscal year 1958 budget as it was planned and executed has left the writer with the firm opinion that in the future greater efforts should be made by the Federal Government to insure that programs rise, fall, or are modified on their own merits, When programs have to be curtailed at short range because of influences unrelated to any merit the programs may have, dislocations, wasted motion, inefficiencies, and unfruitful expenses result. The government should never go into a fiscal year without fiscal "maneuver room." It should exert control and place ceilings in those areas which can be directly controlled by the government.

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